

# FOREWORD



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Welcome to the seventh edition of FinSight, a collection of the latest articles and perspectives from Deloitte professionals, as well as from experts and senior leaders across the financial services industry.

As this edition went to press, the spectre of war on European soil confronted us following Russia's invasion of Ukraine. The geopolitical reverberations continue, and events will have moved on by the time you read this. The war has devastating consequences on a humanitarian level, and our thoughts are with those suffering.

As a publication dedicated to the financial services sector, FinSight will concern its commentary with the war's economic

impact. Many of the articles in this edition were prepared before the crisis in Ukraine. The trends affecting those sectors, as outlined in these pages, still hold true. At the same time, this foreword will briefly consider the possible scenarios facing Ireland's financial industry, across banking, insurance, investment management, real estate, and aviation.

Russia's outsized influence in the global economy means its actions will affect our





lives in a variety of ways large and small, from rising fuel and food prices to higher than expected inflation and other economic consequences.

Across the sector as a whole, increased cyber activity poses a significant risk from the crisis. We have seen in the past that cyber-attacks against one nation often spill over and affect others (as happened with some of the widespread ransomware infections in 2017). Financial firms in Ireland will need to be attuned to this potential threat for disruption.

Before the crisis, central banks in the Euro area, the UK, and US had been preparing to tighten monetary policy to stem rising inflation. Now, they may stay their hand as consumer prices rise. Deloitte's analysis of the war's economic effects noted that European inflation was already higher than it has been in decades. Rapidly rising commodity prices brought on by the war, will push inflation further upwards beyond initial forecasts.

Since wages are unlikely to keep pace with inflation, this could trigger a contraction in spending power for many European workers during 2022. This could affect parts of the insurance market if customers are sensitive to price increases. As for real estate, it is unclear what this could mean for the residential housing market if potential buyers face the double blow of interest rate rises and less cash on hand.

In financial markets, a combination of caution and lower growth forecasts could affect investment management. In times of uncertainty such as these, higher-risk financial assets tend to underperform. Money gravitates to lower-risk assets, such as gold, the dollar, government bonds and so-called value equities with higher and more stable dividend streams.

As one of the largest centres for aviation leasing in the world, Ireland is exposed to the fallout from the economic sanctions imposed on Russia. Irish lessors could face losing assets worth multiple

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millions of Euro if they are unable to reclaim craft from Russian airlines. Although our article focuses on the industry's sustainability agenda, the immediate financial shock cannot be ignored.

The events in Ukraine, and the outpouring of support for its people in the aftermath of the invasion, are a reminder of our connectedness and kinship. As the former US Treasury Secretary Henry Morgenthau said in 1944: "The thread of economic life in every nation is inseparably woven into a fabric of world economy. Let any thread become frayed and the entire fabric is weakened. No nation, however great and strong, can remain immune."

This theme of shared responsibility is one that we at Deloitte have been reflecting upon recently, in terms of how we make an impact that matters for our clients, our people, and our community.

One such area is financial inclusion. The World Bank defines this as individuals and businesses having

access to useful and affordable financial products and services that meet their needs. The term has broadened in scope to cover access to a range of financial products: transactions, payments, savings, credit, and insurance – delivered in a responsible and sustainable way.

The phrase might bring to mind unbanked populations in poorer sections of the developing world, but in fact this urgent issue is closer to our doorsteps than many people might realise. A 2021 study of financial inclusion challenges<sup>1</sup> facing social housing residents in Dublin and Cork found that 37% – more than one in three – showed signs of weak inclusion or exclusion. It also found that women are statistically more likely to suffer from lower levels of inclusion than men. One in eight social housing residents said they do not have a bank, credit union or post office account. Problem debt was an issue for at least 20% of residents, while levels of insurance were extremely low.

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1. McCarthy, O., Faherty, M., Byrne, N. and Carton, F. (2021) Financial inclusion among social housing tenants, Dublin: Cluid Housing and the Housing Finance Agency

Last year, our colleagues at Deloitte UK published a report on financial inclusion for the banking sector. One finding that struck me was the stark figure that over 12 million UK residents would not be able to pay an unexpected bill of £300.

Over the coming months, countries across Europe and beyond will welcome displaced people from war zones including Ukraine. Financial inclusion may well be one of the challenges they face when settling in their new locations.

Research has shown that quality of life improves when people are able to avail of financial services to access education, healthcare, and other essential services. When they can use savings, credit, insurance, and payments services, they become less economically vulnerable. Exclusion from financial services can become a poverty trap, whereas inclusion offers a path out.

If we think back to the drive towards digital, there are certain dynamics at play: rural vs urban and old

vs young. As the latest CSO figures show, Ireland's population is ageing. We cannot simply assume that older people will be as familiar and comfortable with digital financial products as younger people. Moreover, after two years of remote work which in some cases led to people relocating to be closer to their families, is it fair to deprive people of easy access to in-person financial services because of where they choose to live?

There are many benefits for businesses and consumers from embracing digital, but this must be an inclusive approach, not an exclusive one. As financial services professionals, we have a collective obligation to the communities we are a part of. Fortunately, we don't have to look too far for some positive precedents in this respect. The Deloitte UK report noted that when people suffered financial hardship during COVID-19, some banks were compassionate and responded with flexible options to ease the strain. Anecdotally, we are aware of similar understanding shown by Irish banks to vulnerable customers.

To be clear, we don't claim to have all the answers. We are just at the beginning of addressing this problem; but address it we must. This can start with conversations among all participants in the financial services ecosystem. How can we collaborate? We are open to ideas. Initiatives such as the 30% Club have helped to lift the issue of gender diversity to the level of boards and senior management. Could we develop a similar concept to address financial exclusion that everyone can buy into? Is there a role for fintechs in helping to develop products that are easy to use and access; inclusive, not exclusive.

Another recurring theme throughout this edition is the growing prominence of sustainability and ESG goals. As the financial services industry focuses more on this area, we believe financial inclusion must be a part not just of their ESG strategies but of all our collective purpose. An economy cannot exist outside of the society it belongs to. As a sector, we now have a responsibility to tackle challenges such as financial inclusion.



There is a quote in this edition's Path to CEO interview with Fiona Gallagher of Wells Fargo Bank International which is very fitting: "Organisations are looking for leaders, and the reality is, leaders don't just keep their head down and do the job. They look up every so often and see what else they can get involved in." Now is the time for such leadership, from all of us.

Kind regards,  
David Dalton

A handwritten signature in black ink, appearing to read "David Dalton", enclosed in a light grey rectangular box.

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